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HEARING ON RAILROAD
REVENUE ADEQUACY
SURFACE TRANSPORTATION BOARD
DOCKET NO. EP 722
DECEMBER 13, 2019

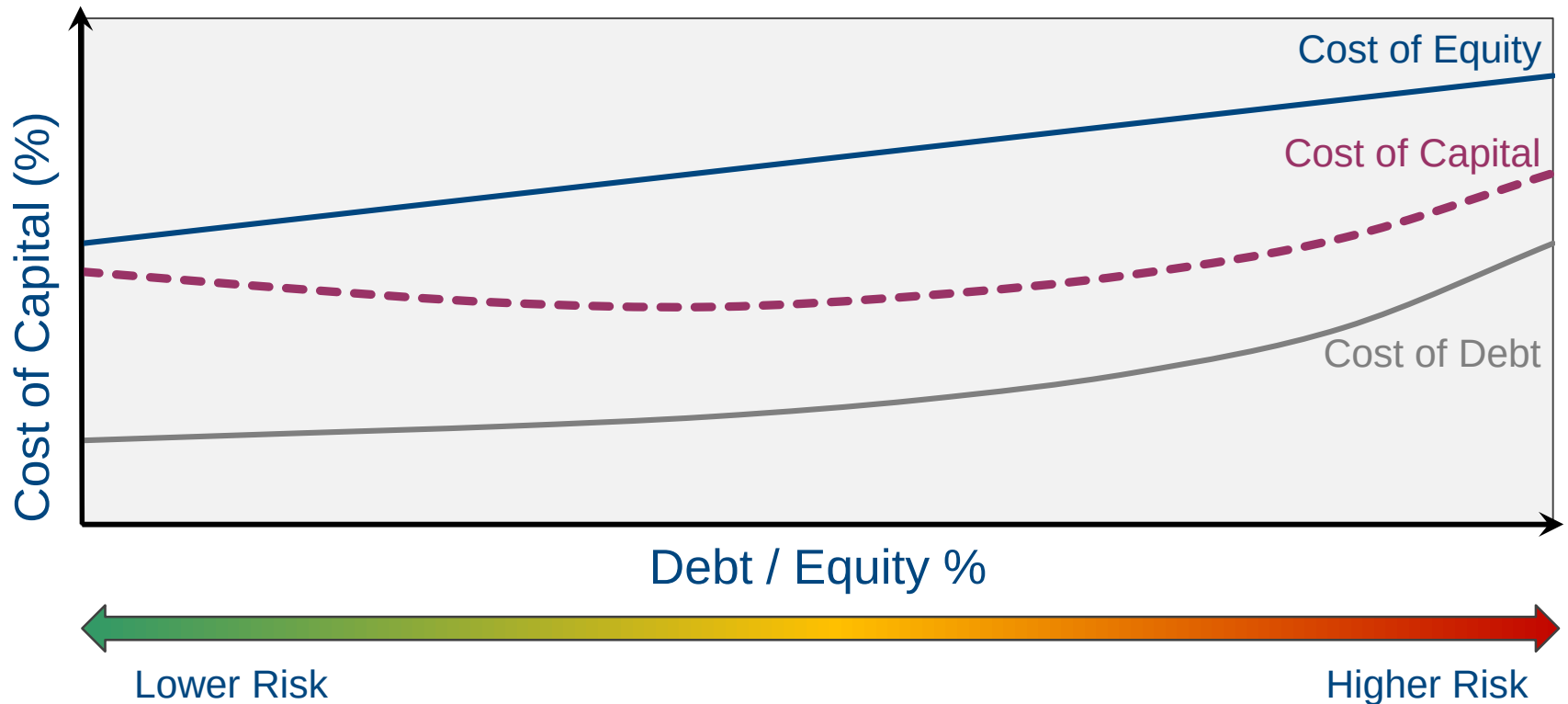
SEAN PELKEY, VICE PRESIDENT FINANCE,
TREASURER, CSX

JOHN PATELLI, HEAD OF REGULATORY AND
FEDERAL AFFAIRS, CSX

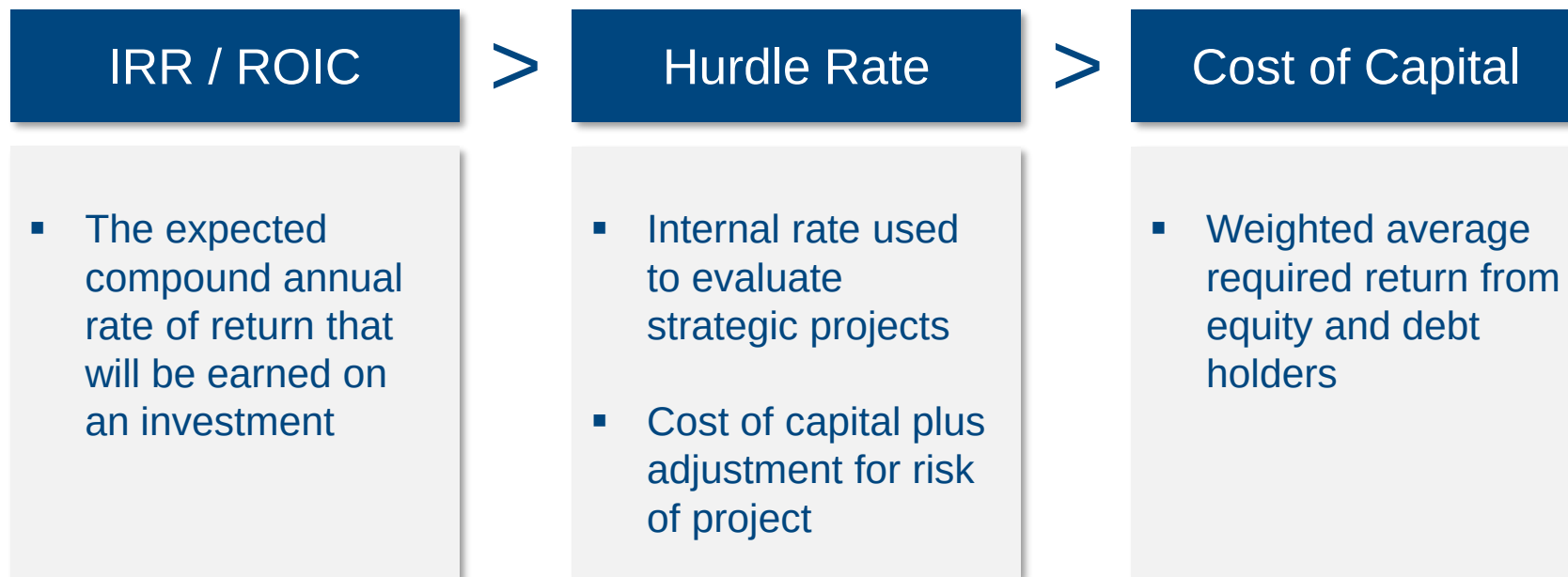


Cost of Capital is the return required by investors

Weighted Average Cost of Capital



Future strategic investments exceed cost of capital



Net Present Value is the value of project cash flows taking into consideration the time horizon and riskiness of the project

Improved performance encourages investment

Freight Car Investment Example

Scenario:	Pre-Scheduled Railroading	Post-Scheduled Railroading
Upfront Investment	(\$ 100,000)	(\$ 100,000)
Annual Revenue	\$ 40,000	\$ 46,000
OR on the Business	70%	60%
Operating Income	\$ 12,000	\$ 18,400
NPV	(\$ 23,300)	\$ 7,900
Will CSX Invest?	No	Yes

CSX replacement cost far exceeds book value

CSXT Net Book Value \$27.9B							
Track		Locomotives		Cars		Other Assets (Bridges, Tunnels, etc.)	
Net Book Value	\$11.9B	Net Book Value	\$3.4B	Net Book Value	\$2.1B	Net Book Value	\$10.5B
Miles	36.6K	Locomotives	3.9K	Cars	53.4K		
NBV / Mile	\$0.3M	NBV / Loco	\$0.9M	NBV / Car	\$0.04M		
Repl. \$ / Mile	\$1.1M	Repl. \$ / Loco	\$2.7M	Repl. \$ / Car	\$0.1M		
Repl. Cost	\$40.2B	Repl. Cost	\$10.5B	Repl. Cost	\$5.3B	Repl. Cost	~\$30B+
3.4X		3.1X		2.5X			

CSX Replacement Costs Likely Exceed \$80B

CSX continues to invest in core infrastructure

CSX invested \$22B in the business from 2009 – 2018,
66% of Operating Cash Flows



Replaced 5,150 miles of track



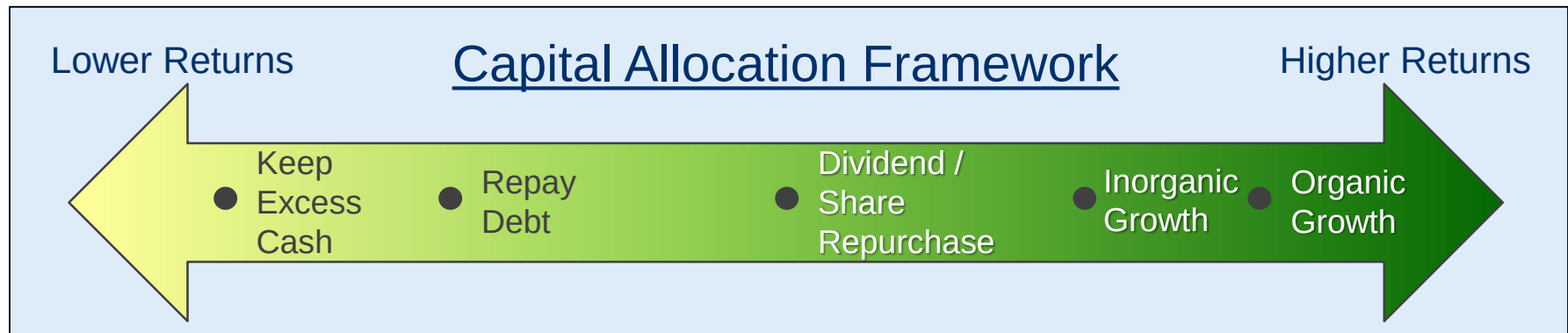
Replaced 33 million cross ties



Purchased 544 locomotives

Capital allocation prioritizes safety, reliability, returns

- First priority is investment in the safety and reliability of our core assets (~\$1B/year)
- Capital allocation beyond maintenance is an annual Board level discussion
- Decisions must weigh returns relative to risk:



Options are limited in world of capped returns

Our stakeholders will not accept these “options”:

- 1
 - Continue to seek and invest in high-return projects
 - Distribute returns to shippers

- 2
 - Continue to invest in high-return projects and
 - Increase investment in low-return projects

Only feasible outcome:

- 3
 - Replace assets only at very end of useful life
 - Cut strategic, discretionary capital

CSX: Delivering exactly what stakeholders demand

